

Message Text

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ORIGIN STR-07

INFO OCT-01 ARA-10 IO-13 ISO-00 TRSE-00 COME-00 LAB-04
SSO-00 INRE-00 ICAE-00 NSCE-00 AGRE-00 CEA-01
CIAE-00 DODE-00 EB-08 FRB-03 H-01 INR-10 INT-05
L-03 NSAE-00 PA-01 CTME-00 AID-05 SS-15 ITC-01
SP-02 SOE-02 OMB-01 DOE-15 /108 R

DRAFTED BY STR:JGREENWALD:MM
APPROVED BY STR:AWOLFF
TREASURY:FBERGSTEN
STATE:HKOPP
COMMERCE:FMONTGOMERY(INFO)
LABOR:BTURNER
-----128227 282015Z /75
O 281957Z AUG 78
FM SECSTATE WASHDC
TO USMISSION GENEVA IMMEDIATE
INFO AMEMBASSY BRASILIA IMMEDIATE

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GENEVA FOR USMTN

E.O. 11652:

TAGS: MTN/ETRD

SUBJECT: DISCUSSION OF SUBSIDY/CVD NEGOTIATIONS WITH
BRAZILIANS

1. AUGUST 21-23 DISCUSSIONS WITH BRAZILIAN TEAM (LEAD BY
DORNELLES AND BOTAFOGO) OF SUBSIDY/CVD CODE BEING
NEGOTIATED IN MTN RESULTED IN OUTLINE OF A PROPOSAL FOR
SPECIAL AND DIFFERENTIAL TREATMENT WHICH COULD PROVIDE A
BASIS FOR U.S.-BRAZIL UNDERSTANDING ON CODE.

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2. DORNELLES SUGGESTED THAT THE PROPOSAL BE PRESENTED
OFFICIALLY TO AMBASSADOR MACIEL IN GENEVA AND TO MINISTERS
SILVIERA AND SIMONSEN IN BRASILIA AS SOON AS POSSIBLE.
BRAZILIAN INTERNAL REVIEW WILL BEGIN UPON DORNELLES/BOTAFOGO
RETURN TO BRASILIA AND DORNELLES BELIEVES BRAZILIAN RESPONSE
(EXCEPT ON ISSUE OF PROVISIONAL MEASURES) WILL BE FAVORABLE.

DORNELLES PERSONALLY OPINED THAT BRAZIL COULD, UNDER CERTAIN CIRCUMSTANCES, (E.G., GREATER PROVISION FOR CONSULTATION BEFORE TAKING ACTION) ACCEPT SOME FORM OF PROVISIONAL MEASURES PENDING INTERNATIONAL REVIEW OF ALLEGED VIOLATIONS OF COMMITMENTS ON USES OF SUBSIDY. HOWEVER, HE STATED THAT BRAZIL COULD NOT YET ENDORSE PROVISIONAL MEASURES AND SUGGESTED THAT IN PRESENTING THE ISSUE THE U.S. BE "HARDLINE".

3. PROPOSAL FOR S AND D ELEMENTS OF SUBSIDY-COUNTERVAIL BUILDS ON COMMENTS ON DRAFT CODE GIVEN BY DORNELLES AND MACIEL IN GENEVA IN JULY. REQUEST THAT OUTLINE OF PROPOSAL (SEE BELOW) BE PRESENTED IN GENEVA AND BRASILIA AS SOON AS POSSIBLE. IN PRESENTING PROPOSAL, MTN DEL AND EMBASSY SHOULD EMPHASIZE THE FACT THAT IT BUILDS ON BRAZILIAN SUGGESTIONS CONCERNING DRAFT CODE. KEY ELEMENTS OF S AND D PROPOSAL ARE:

A. RECOGNITION THAT (1) EXPORT SUBSIDIES ON INDUSTRIAL PRODUCTS ARE AN INTEGRAL PART OF MANY LDC DEVELOPMENT PROGRAMS AND (2) LDCS PRESENTLY UNABLE TO ASSUME COMMITMENT NOT TO USE SUCH SUBSIDIES.

B. AGREEMENT THAT SUCH EXPORT SUBSIDIES WILL NOT, REPEAT NOT, BE USED IN A MANNER WHICH CAUSES AN ADVERSE EFFECT ON TRADE OR PRODUCTION OF ANOTHER CODE LIMITED OFFICIAL USE

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SIGNATORY.

C. THERE WOULD BE NO, REPEAT NO, PRESUMPTION THAT EXPORT SUBSIDY USED BY LDC RESULTS IN ADVERSE EFFECT (I.E., NO PRIMA FACIE CASE), BUT WHEN ADVERSE EFFECT DEMONSTRATED ACTION UNDER "SECOND TRACK" OF DRAFT CODE WOULD BE AVAILABLE.

D. ACTION UNDER "SECOND TRACK" WOULD INCLUDE POSSIBILITY OF PROVISIONAL ACTION PENDING INTERNATIONAL REVIEW OF THE ISSUE.

E. RECOGNITION THAT AS LDCS DEVELOP THEY SHOULD CURB THEIR USE OF EXPORT SUBSIDIES ON INDUSTRIAL PRODUCTS WITH A VIEW TOWARD ASSUMING FULL COMMITMENT NOT TO USE SUCH SUBSIDIES.

F. WHERE PHASE OUT/PHASE DOWN AGREED TO (AND AGREEMENT HONORED), COUNTERMEASURES AGAINST SUBSIDIES COVERED BY AGREEMENT WOULD NOT, REPEAT NOT, BE AVAILABLE ON SECOND TRACK.

G. AGREEMENT BY BRAZIL TO PHASE OUT EXPORT SUBSIDIES, GENERALLY OVER A PERIOD OF FROM 3 - 5 YEARS. WHERE PHASE OUT OVER THE SHORTER PERIOD THE REDUCTION IN THE SUBSIDY COULD BE LARGER DURING LAST YEAR; IF LONGER, 5-YEAR PERIOD SELECTED, THE FIRST YEAR CUTS IN THE SUBSIDY WOULD HAVE TO BE ON THE ORDER OF 40 PERCENT. PHASE OUT WOULD NOT HAVE TO BE UNIFORM FOR ALL PRODUCTS/ INDUSTRIES (I.E., BRAZIL COULD HAVE FLEXIBILITY TO TAILOR PHASE OUT TO SPECIFIC NEEDS).

WHERE THERE MAY BE U.S./BRAZIL DIFFERENCES, BUT ONCE CONSENSUS ON THE BASIC ISSUES IS NAILED DOWN, THESE PROBLEMS SHOULD NOT PRESENT ANY GREAT BARRIER TO AGREEMENT ON THE CODE.

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5. DISCUSSIONS ON CODE WERE HELD IN CONJUNCTION WITH DISCUSSION OF TEXTILE CASE (REPORTED SEPTEL) AND FINAL BRAZILIAN ATTITUDES ON THE CODE MAY BE AFFECTED BY FINAL RESOLUTION OF TEXTILE CASE.

6. IN ADDITION TO SUBSIDY/CVD DISCUSSIONS, THERE WAS A USEFUL REVIEW OF OTHER MTN ISSUES WHICH IS REPORTED SEPTEL.

CHRISTOPHER

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